

DRAFT

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Telecommunications Division
Public Programs Branch

RESOLUTION T-16689
April 17, 2003

R E S O L U T I O N

RESOLUTION T-16689- ALL TELECOMMUNICATIONS CARRIERS.
TO ADOPT A FISCAL YEAR 2003-04 BUDGET AND A SURCHARGE RATE
OF 1.20% FOR THE UNIVERSAL LIFELINE TELEPHONE SERVICE (ULTS)
PROGRAM.

BY ULTS ADMINISTRATIVE COMMITTEE LETTER REQUEST DATED
JUNE 3, 2002

Summary

This resolution adopts a total budget of \$239.883 million for the Universal Lifeline Telephone Service (ULTS) program for fiscal year (FY) 2003-04. Itemized adopted budget costs are attached as Appendix A and summarized below:

	FY 2003-04 Adopted Budget <u>(\$ in millions)</u>
Carrier Payments	\$230.000
Marketing and Outreach Projects	\$5.694
Administrative Committee	\$0.021
Audits	\$2.100
Banking Fees	\$0.023
CPUC Administrative Costs	\$0.330
Interagency Costs	\$1.665
Other Operating and Maintenance Expenses	<u>\$0.050</u>
Total Program Expenses	\$239.883

This Resolution also adopts a surcharge rate of 1.20% to take effect on September 1, 2003 for the funding of the above budget.

All certificated telecommunications carriers required to file tariffs with the Commission shall file advice letters by August 20, 2003 revising the ULTS surcharge rate to 1.20% to take effect on September 1, 2003.

Background

1. ULTS Program

The ULTS program was established by the California Public Utilities Commission (CPUC or Commission) in 1984 pursuant to Public Utilities (PU) Code § 871 to provide discounted basic telephone services to qualifying low-income households. The ULTS discounted services are provided by exchange service providers, which, in turn, receive reimbursement from the ULTS program for their lost revenues and operating expenses associated with the provision of ULTS services. Prior to November 1996, the reimbursable operating expenses include Commercial and Marketing expense. With the advent of local exchange competition, the Commission ceased the reimbursement of "Commercial and Marketing" expense to carriers and designated a new advisory board for recruiting a qualified advertising agency to develop print, billboard, and radio advertising for the ULTS program, as well as qualified nonprofit community-based organizations (CBOs) to engage in community outreach to promote the ULTS program.¹ The ULTS program has a dual purpose: 1) a discounted program for the purpose of achieving a 95% subscriber rate for all residential customer groups, and 2) a marketing program for the marketing and outreach of the ULTS program in a competitively neutral environment.

2. Program Funding

The ULTS program is funded through a surcharge billed and collected by all telecommunications carriers, which then remit the surcharge monies to a financial institution designated by the Commission. Monies remitted to the designated financial institution are transferred daily to the State Treasury for deposit in the ULTS Fund. Telecommunications services that are subject to the ULTS surcharge include all intrastate services except for the following:

- a. ULTS discounted services;
- b. charges to other certificated carriers for services that are to be resold;
- c. coin sent paid telephone calls (coin in box) and debit card calls;
- d. customer-specific contracts effective before 9/15/94;
- e. usage charges for coin-operated pay telephones;
- f. directory advertising; and
- g. one-way radio paging.

¹ At page 231 of D.96-10-066.

Historical ULTS surcharge rates since the inception of the program are available online at <http://www.cpuc.ca.gov>.

3. Program Administration

In D.87-10-088, the Commission established the ULTS-Trust Administrative Committee (ULTS-AC) to administer and manage financial aspects of the ULTS program. In D.97-12-105, the Commission established the ULTS-Marketing Board to develop and implement marketing programs in accordance with D. 96-10-066. Members of the ULTS-AC and the ULTS-MB are not compensated for serving on the committees. However, these committees had paid staffs conducting daily administrative and operational functions for the ULTS-AC and ULTS-MB.

PU Code § 270 et seq. were codified by the enactment of Senate Bill (SB) 669 requiring that:

- the State Treasury create a Universal Lifeline Telephone Trust Administrative Committee Fund (ULTSAC Fund),
- the Commission create a Universal Lifeline Telephone Trust Administrative Committee to advise the Commission regarding the development, implementation, and administration of the ULTS program.
- the Commission transfer all remaining ULTS funds and future surcharge revenues to the State Treasury Office for deposit in the ULTSAC Fund commencing October 1, 2001,
- the Commission may only expend funds of the ULTSAC Fund upon appropriation in the annual Budget Act.

In August 2001, the Commission initiated a rulemaking R.01-08-002 and issued a series of decisions and took actions to implement SB 669 including:

- dismissing all paid staffs of ULTS-AC and ULTS-MB as of September 30, 2001;
- transferring the remaining funds of the ULTS in excess of \$108 million to the State Treasury Office on October 1, 2001;
- adopting a FY 2001-02 revised budget on October 10, 2001 consistent with the appropriation in the FY 2001-02 Budget Act;
- assuming all administrative responsibilities of the ULTS programs by Commission staff commencing October 1, 2001;
- merging the ULTS-AC and ULTS-MB into one board with the ULTS-AC as the surviving board;
- assigning program liaisons from the Telecommunications Division (TD), the Legal Division (LD), the Information and Management Services Division (IMSD), and the Communications and Consumer Information Office (CPIO) to serve the ULTS-AC;

- revising the Charter of the ULTS-AC from advisory and administrative functions to advisory only; and
- charging the ULTS-AC with the following responsibilities:
 - Pursuant to Pub. Util. Code § 273(a), on or before June 1 of each year the ULTS-AC shall submit a proposed budget to the Commission. The proposed budget shall include estimated program expenditures and the Committee's projected expenses for the fiscal year (July 1 to June 30) that will commence thirteen (13) months thereafter.
 - Pursuant to Pub. Util. Code § 273(b), on or before October 1 of each year the ULTS-AC shall submit a report to the Commission describing Committee activities during the prior fiscal year.
 - Pursuant to Pub. Util. Code § 277(a), the ULTS-AC shall advise the Commission regarding the development, implementation and administration of the ULTS program, within the context of the Committee's purpose.

In compliance with the chartered responsibility, on June 3, 2002, the ULTS-AC submitted to the Commission a proposed budget for fiscal year (FY) 2003-04 in the amount of \$239.138 million.

Notice/Protests

Copies of the ULTS-AC proposed budget for FY 2003-04 were mailed to the Commission and parties on the service list of R.98-09-005. This proposed budget was duly noticed on the Commission's Daily Calendar on June 4, 2002 stating that any comments and/or protests must be made in writing and received by the Commission within 20 days from the posting date. This 20-day protest period has lapsed and no protests and/or comments have been received.

Discussion

This resolution adopts a FY 2003-04 budget of \$239.883 million for the ULTS program. Itemized adopted budget costs are attached as Appendix A. For the funding of this program, this Resolution adopts a surcharge rate of 1.20% to take effect on September 1, 2003.

1. Program Budget

The following table summarizes the FY 2003-04 budgets proposed by the ULTS-AC and TD, and a FY 2003-04 budget adopted today:

	Proposed by ULTS-AC (\$ in millions)	Proposed by TD (\$ in millions)	Adopted by Commission (\$ in millions)
Carrier Payments	\$230.000	\$230.000	\$230.000
Marketing and Outreach Projects	\$5.694	\$5.694	\$5.694
Administrative Committee	\$0.131	<i>\$0.039</i>	<i>\$0.021</i>
Audits	\$1.920	<i>\$2.100</i>	\$2.100
Banking Fees	\$0.026	<i>\$0.023</i>	\$0.023
CPUC Administrative Costs	\$0.471	<i>\$0.330</i>	\$0.330
Interagency Costs	\$0.818	<i>\$1.665</i>	\$1.665
Other Operating and Maintenance Expenses	<u>\$0.078</u>	<u><i>\$0.050</i></u>	<u>\$0.050</u>
Total Program Expenses	\$239.138	<i>\$239.901</i>	<i>\$239.883</i>

The budget proposed by TD was incorporated in the Governor's Budget published on January 10, 2003. Itemized Cost amounts revised by TD from that proposed by the ULTS-AC are in italics. Itemized costs adopted today, different from those proposed by TD, are also in italics.

Carrier Payments: This expense category is based on projections submitted by the telecommunications carriers and historical trends for the carrier reimbursements of lost revenues and operating expenses associated with the provision of the discounted ULTS services. The amount proposed by the ULTS-AC and concurred with by the TD is reasonable, and therefore adopted.

Marketing and Outreach Projects: These projects include a marketing contract of \$5 million with a qualified advertising agency to develop print, billboard, and radio advertising for the ULTS program, as well as qualified nonprofit CBOs to engage in community outreach to promote the ULTS program; a Call Center contract at an annual cost of \$0.500 million for the operation of an independent call center in eight different languages providing an avenue for ULTS customers to contract and request information on the ULTS program; and a Program Assessment contract of \$0.194 million for the evaluation of the effectiveness of the Marketing and the Call Center contracts. These projects and related costs proposed by the ULTS-AC and supported by the TD are reasonable, therefore adopted.

Administrative Committee: The ULTS-AC proposed a budget of \$131,000 for the administrative committee including expenses for per diem and related travel for eligible

committee members,² four off-site meetings throughout the State, printed pamphlets describing the ULTS program and the administrative committee, and errors & omissions (E&O) and directors and officers (D&O) insurance policies.

Due to the budget shortfall encountered by the State as a whole, TD proposed that the cost for the Administrative Committee be decreased to \$39,000. This reduction³ is accomplished by allowing only expenses for per diem and related travel for eligible committee members for attending monthly meetings.⁴

On January 29, 2003, the Department of Finance (DOF) issued a budget letter requesting that all State advisory bodies are to limit their meetings to one annually for FY 2003-04, if such limitation does not require statutory change. Since meeting once annually for the ULTS-AC would significantly impact the development on the marketing programs, the Commission is requesting exemption from DOF for allowing the ULTS-AC to meet no fewer than six (6) times per year to advise and assist the Commission on types and formats of different marketing strategies, activities and programs. Consistent with this action, the Administrative Committee expense is therefore, further reduced to \$21,000 today.

Audits – This cost category includes four different types of audits: 1) audits on the financial position of the ULTS Fund; 2) audits on the program for compliance of Commission decisions and PU Code § 270 et seq.; 3) audits on carriers for their accuracy of reporting and remitting ULTS surcharge; and 4) audits on carriers for their accuracy of program reimbursement requests.

The integrity of the ULTS program is contingent on whether the Fund is financially sound; the program is in compliance with Commission orders and legislative mandates; carriers are assessing, reporting and remitting the appropriate ULTS surcharges; and carriers are receiving the applicable reimbursements for the provision of the ULTS services. Furthermore, no audits have been conducted since the codification of PU Code § 270 et seq.

² Pursuant to Section 3.8 of the ULTS-AC Charter, members who are not employees of utilities, the Commission, or other governmental agencies of the State of California are entitled to reimbursement of reasonable expenses and/or per diem incurred in connection with their service on the Committee.

³ Department of General Services issued a letter to the Commission on December 30, 2002 stating that: "The individual members of the [Advisory] Board would receive essentially the same coverage whether from the State under the Government Codes or from insurance. The State's general risk management philosophy is to retain the risk of loss within the State. The role of the members is for advisory purposes only, so their exposure is minimal. Thus, ORIM [Office of Risk and Insurance Management] recommends the CPUC does not purchase E&O and D&O coverage at this time for the committee members. Defense would be provided through Government Code 810.2 if required." Therefore, TD's proposal of eliminating the cost for the purchase of E&O and D&O insurance policies does not put any committee members at risk without proper protection.

⁴ Based on the current appointed primary and alternate committee members, costs for special need accommodation are not anticipated and therefore not included in the administrative committee budget cost.

For these reasons, this Resolution adopts the increase of audit costs from \$1,920,000 recommended by the ULTS-AC to \$2,100,000 as proposed by TD.

CPUC Administrative Costs: The FY 2002-03 Budget Act enacted in September 2002 sets a ceiling of \$357,000 to be used by the Commission for ULTS program administrative and staffing costs. Due to the budget shortfall encountered by the State as a whole, this Resolution adopts the reduced cost of \$330,000 proposed by TD.

Interagency Costs: This represents interagency costs charged by other State control agencies. The amount of \$1,665,000 proposed by TD is the projected ULTS pro-rata share of interagency cost, and therefore is adopted.

Other Operating and Maintenance Expenses: Due to the budget shortfall encountered by the State as a whole, this Resolution adopts the reduced cost of \$50,000 proposed by TD from that of \$78,000 proposed by the ULTS-AC.

2. Program Funding

This Resolution adopts a surcharge rate of 1.20% to take effect on September 1, 2003 for the funding of the program for FY 2003-04. Fund activities for FY 2003-04 projected by the ULTS-AC and TD, and adopted are summarized in Appendix A.

Telecommunications Billings Subject to Surcharge: Based upon the telecommunications surcharge revenue remittances for FY 2001-02 and the forecast of surcharge revenue remittances for FY 2002-03, the estimated intrastate billings subject to surcharges are projected at \$19.846 billion for FY 2003-04. The forecast is based on a 4.35% ⁵ growth on the FY 2002-03 estimated billing base of \$19.017 billion adopted in Resolution T-16685.

Surcharge Rate: In the last three years, the ULTS surcharge rate fluctuated three times as demonstrated below:

<u>Period</u>	<u>Surcharge Rate</u>
Effective 1/1/2003	0.000%
7/1/01--12/31/02	1.450%
1/1/01--6/30/01	0.800%
1/1/00-12/31/00	0.500%

⁵ This growth rate reflects the personal income percentage changes for California projected by UCLA Anderson on December 2002 for 2003 and 2004.

The projected fund balance as of July 1, 2003 is \$59.843 million, which is about 3 months of reserve. Instead of developing a surcharge rate to take effect from the beginning of the funding year, TD recommends that the change in surcharge rate be implemented in September 1, 2003 in order to maintain rate stability for a longer period of time and result in a one-month reserve balance at June 30, 2004. TD believes that the projected three-month fund balance at July 1, 2003 should be applied for program expenses without any increase in the surcharge rate until September 1, 2003 when the fund balance is projected to be at a month reserve.

The new surcharge rate of 1.20%, effective September 1, 2003 and thereafter, is projected to generate sufficient monthly revenue to meet the monthly expenditure. Except for abnormal changes in the economy and the telecommunications industry, the surcharge rate developed under this approach should be sustainable for a longer period. The Commission finds the approach proposed by TD reasonable, and therefore adopts a surcharge rate of 1.20% to take effect on September 1, 2003 as proposed by TD.

All certificated telecommunications carriers required to file tariffs with the Commission shall file advice letters by August 20, 2003 revising the ULTS surcharge rate to 1.20% to take effect on September 1, 2003.

Notice To Other Carriers, Advice Letter Filings, And Notice Of Availability

In Resolution T-15558 (dated June 8, 1994), we waived the notice requirements of General Order (G.O.) 96-A, Section III.G.1 to furnish competing utilities either public or private with copies of related tariff sheets. We did so because it did not appear to be in the public's interest for each utility to send and receive over two hundred notices advising them of regulatory changes about which they already know. Since that time nothing has happened to change our opinion, so we will waive this notice requirement for tariff changes which comply with this resolution.

In the past, the Commission has served copies of the conformed resolution on all telecommunications carriers and parties on the service list of R.98-09-005. In order to be consistent with the Commission's commitment to utilize the CPUC Internet web site for distributing Commission orders and information, TD has informed all telecommunications carriers in the Notice of Availability mailed on March 18, 2003, that a conformed copy of this Resolution will be available on the Commission's web site, www.cpuc.ca.gov when adopted by the Commission. TD shall mail a copy of the conformed resolution to each of the parties on the service list of R.98-09-005 and ULTS-AC committee members.

Comments

Notices of Availability of the draft of this Resolution were mailed on March 18, 2003 to all telecommunications carriers advising them that this document is on the Commission's web site, www.cpuc.ca.gov, and is available for comments in accordance with PU Code Section 311(g). Hard copies of the draft resolution were mailed to the parties of record in R.98-09-005 and the committee members of the ULTS-AC on March 18, 2003.

Findings

- 1) The California Public Utilities Commission (CPUC or Commission) established the Universal Lifeline Telephone Service (ULTS) program in 1984 pursuant to Public Utilities (PU) Code § 871 to provide discounted basic telephone services to qualifying low-income households.
- 2) In D.87-10-088, the Commission established the ULTS-Trust Administrative Committee (ULTS-AC) to administer and manage financial aspects of the ULTS program
- 3) With the advent of local exchange competition, in Decision (D.)96-10-066, the Commission designated a new advisory board for recruiting a qualified advertising agency to develop print, billboard, and radio advertising for the ULTS program, as well as qualified nonprofit community-based organizations (CBOs) to engage in community outreach to promote the ULTS program.
- 4) In D.97-12-105, the Commission established the ULTS-Marketing Board to develop and implement marketing programs in accordance with D. 96-10-066.
- 5) PU Code § 270 et seq. were codified by the enactment of Senate Bill (SB) 669 requiring that the Commission create a Universal Lifeline Telephone Trust Administrative Committee to advise the Commission regarding the development, implementation, and administration of the ULTS program, transfer all remaining ULTS funds and future surcharge revenues to the Controller for deposit in the ULTSAC Fund commencing October 1, 2001, and may only expend funds of the ULTSAC Fund upon appropriation in the annual Budget Act.
- 6) In August 2001, the Commission initiated a rulemaking R.01-08-002 and issued a series of decisions and took actions to implement SB 669 including but are not limiting to merging the ULTS-AC and the ULTS-MB, and revising the Charter of ULTS-AC,

the surviving committee, from administrative and advisory functions to advisory only.

- 7) In compliance with the chartered responsibilities, on June 3, 2002, the ULTS-AC submitted to the Commission a proposed budget for fiscal year (FY) 2003-04 in the amount of \$239.138 million.
- 8) The Commission's Telecommunications Division (TD) proposed a budget of \$239.901 million for the ULTS program for FY 2003-04. This proposed budget was incorporated in the Governor's Budget published on January 10, 2003.
- 9) On January 29, 2003, the Department of Finance (DOF) issued a budget letter requesting that all State advisory bodies are to limit their meetings to one annually for FY 2003-04, if such limitation does not require statutory change. Since meeting once annually for the ULTS-AC would significantly impact the development on the marketing programs, the Commission is requesting exemption from DOF for allowing the ULTS-AC to meet no fewer than six (6) times per year to advise and assist the Commission on types and formats of different marketing strategies, activities and programs.
- 10) The FY 2003-04 budget and itemized costs attached as AppendixA proposed by TD are reasonable. However, in accordance with the budget directive set forth in the DOF's letter, TD's proposed cost for the ULTS-AC should be reduced from \$39,000 to \$21,000 to reflect the reduced number of meetings for FY 2003-04. Correspondingly, the adopted FY 2003-04 budget should be reduced from \$239.901 million proposed by TD to \$239.883 million.
- 11) Since Year 2000, the ULTS surcharge rate fluctuated three times.
- 12) Instead of developing a surcharge rate to take effect from the beginning of the funding year, TD recommends that the change in surcharge rate be implemented in September 1, 2003 in order to maintain rate stability for a longer period of time and ending with a one-month reserve balance at June 30, 2004. Under this approach, TD recommends a surcharge rate of 1.20% to take effect on September 1, 2003.
- 13) TD's approach and surcharge rate recommendation are reasonable and should be adopted.
- 14) All certificated telecommunications carriers required to file tariffs with the Commission should file advice letters by August 20, 2003 revising the ULTS surcharge rate to 1.20% to take effect on September 1, 2003.

- 15) In Resolution T-15558 (dated June 8, 1994), we waived the notice requirements of General Order (G.O.) 96-A, Section III.G.1 to furnish competing utilities either public or private with copies of related tariff sheets.
- 16) A Notice of Availability of the draft of this Resolution was mailed on March 18, 2003 to all telecommunications carriers advising them of the availability of this draft resolution on the Commission's web site.
- 17) Hard copies of the draft resolution were mailed to the parties of record in R.98-09-005 and the committee members of the ULTS-AC on March 18, 2003.

THEREFORE, IT IS ORDERED that:

- 1) This resolution adopts a total budget of \$239.883 million and itemized costs attached as Appendix A for the Universal Lifeline Telephone Service (ULTS) program for fiscal year (FY) 2003-04.
- 2) This Resolution also adopts a surcharge rate of 1.20% to take effect on September 1, 2003 for the funding of the FY 2003-04 budget.
- 3) All certificated telecommunications carriers required to file tariffs with the Commission shall file advice letters by August 20, 2003 revising the ULTS surcharge rate to 1.20% to take effect on September 1, 2003. The telecommunications carriers are not required to notice competing utilities for tariff changes that comply with this resolution.

This Resolution is effective today.

I hereby certify that this Resolution was adopted by the Public Utilities Commission at its regular meeting on April 17, 2003. The following Commissioners approved it:

WILLIAM AHERN
Executive Director

APPENDIX A

ULTS ADMINISTRATIVE COMMITTEE FUND
PROGRAM BUDGET (\$000s)
FOR FISCAL YEAR 2003-2004 (July 1, 2003 through June 30, 2004)

	Proposed by ULTSAC	Proposed by TD	Adopted by Commission
A FY 03-04 TELECOMMUNICATIONS REVENUE SUBJECT TO SURCHARGES	\$20,000,000	\$19,845,588	\$19,845,588
B SURCHARGE RATES	1.35%	1.20%	1.20%
a Effective Date	7/1/2003	9/1/2003	9/1/2003
1 BEGINNING FUND BALANCE	\$0	\$59,843 ¹	\$59,843
2 REVENUES (FY 02-03)			
a Surcharges (Ln A/12 * Ln B * # of months surcharge in effect per Ln B.a)	\$270,000	\$198,456	\$198,456
b Investment Income (per monthly projected cash flow)	\$769	\$1,500	\$1,500
c Others			
d Total 02-03 Revenues (sum of a thru c)	\$270,769	\$199,956	\$199,956
3 PROGRAM EXPENSES (FY 02-03)			
a Carrier Payments	\$230,000	\$230,000	\$230,000
b Marketing Program	\$5,694	\$5,694	\$5,694
c Administrative Committee	\$131	\$39	\$21
d Financial Audit	\$20	\$100	\$100
e Compliance Audit	\$700	\$500	\$500
f Surcharge Remittance Audit	\$600	\$600	\$600
g Claim Audit	\$600	\$900	\$900
h Banking Fees	\$26	\$23	\$23
i CPUC Administrative Costs	\$471	\$330	\$330
j Interagency Costs	\$818	\$1,665	\$1,665
k Other Operating and Maintenance Expenses	\$78	\$50	\$50
l Total Program Expenses (sum of a thru k)	\$239,138	\$239,901	\$239,883
4 FUND BALANCE AS OF JUNE 30, 2004 (Ln 1 + Ln 2 - Ln 3)	\$31,631	\$19,898	\$19,916

¹ This is based on the balance of \$52,543,000 as of June 30, 2003 projected in Resolution T-16688 (December 5, 2002) plus additional surcharge revenue of \$7 million due to a higher projection of telecommunications revenues subject to surcharge adopted in Resolution T-16685 (January 30, 2003).